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OCTOBER TERM, 1997

WAYNE K. PFAFF,
Petitioner,

v.

WELLS ELECTRONICS, INC.,
Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

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BRIEF OF THE DALLAS-FORT WORTH INTELLECTUAL PROPERTY LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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INTEREST OF THE *AMICUS CURIAE*[*]

Formed in the mid-1950s, the Dallas-Fort Worth Intellectual Property Law Association is a regional association of persons concerned with patent, trademark, copyright, trade secret, and other laws protecting intellectual property rights. The Association is a member of the National Council of Intellectual Property Law Associations.

The Association's members, mostly attorneys, regularly represent clients in patent litigation, advise clients on licensing and other transactional matters involving patents, and represent clients in administrative proceedings before the United States Patent and Trademark Office. The members' clients are split roughly evenly between patent owners and accused infringers. In their role as advisors, the Association's members are regularly called upon to provide opinions on whether particular activities infringe or invalidate patents. The Association's attorney members also represent individuals, universities, and small and large businesses in the trial and appellate stages of patent infringement litigation.

A principal objective of the Association is to advocate improvements in the patent laws and court procedures for administering those laws. To promote that objective, this *amicus curiae* brief sets forth the Association's views on the uncertainties posed by the analysis reflected in the decision below and suggests a solution to minimize those uncertainties while still promoting the policies that give rise to the on-sale provision.

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[*] The parties' letters of consent have been filed with the Clerk pursuant to Rule 37.3. No interested party authored this brief, in whole or in part, or paid any of the costs of producing it.

The Association, as a whole, has no direct interest in any of the parties or the outcome of this lawsuit, except to the extent the outcome affects the overall administration of the patent laws. Although the Association's membership includes counsel for both parties and the special master who rendered the decision from which this case arises, none of these individuals participated in the formulation of the Association's views or the preparation of this *amicus curiae* brief. The views expressed in this brief should not be attributed to any party or counsel, nor should the Association's adoption of these views be used against them.

SUMMARY OF ARGUMENT

For the last ten years, the Federal Circuit has used a generalized, totality-of-the-circumstances test to evaluate the on-sale provision of 35 U.S.C. § 102(b) on a case-by-case basis. While the totality-of-the-circumstances test employed in the decision below satisfies the need for flexible analysis, it is an essentially unfocused analysis that often leads to unpredictable results. Without a definite and comprehensive test, practitioners and lower courts have encountered great difficulty in performing the on-sale analysis with any degree of certainty.

Although a more definite and better articulated test would be beneficial, rigidly requiring an actual reduction to practice before an invention is deemed "on sale," as advocated by the Petitioner, is not the answer. Such an approach fails to support all the policies underlying the on-sale provision. While an actual reduction to practice may be relevant to the on-sale inquiry in many cases, the complete fabrication of the invention is not always required for the commercialization of the invention through a sale. Finally, the actual-reduction-to-practice standard advocated by the Petitioner is subject to easy circumvention by the shrewd inventor who deliberately refuses

to finish the final steps in the assembly of the invention, but simultaneously benefits from significant commercialization of the invention. For these reasons, actual reduction to practice is not the appropriate polestar for navigating the on-sale issues.

On the contrary, the Association suggests the adoption of a comprehensive, yet flexible, three-prong test for the on-sale provision. The proposed test would include consideration of: (1) whether the commercial activities of the patentee and the offeree establish an identifiable sale or offer for sale of the invention more than one year before the filing date, (2) whether the patentee's and offeree's intent and level of business acumen evidence a sale or offer for sale of the invention, and (3) whether the nature and stage of development of the invention indicate that the invention could be sold in a commercial transaction.

Only the first factor in the proposed analysis could be considered outcome determinative because, after all, if no sale or offer for sale activity of the invention is identifiable, then the on-sale inquiry can be answered in the negative. The other two prongs in the analysis should be considered on a sliding continuum where no single fact or factor can be relied upon exclusively to evaluate the on-sale inquiry. By providing a clearly articulated framework for analysis, this comprehensive and flexible approach would lead to more predictable results while effectively promoting the policies underlying the on-sale provision.

ARGUMENT

I. The Federal Circuit's On-Sale Analysis Under the Totality of the Circumstances Is Too Indefinite

The policies underlying the on-sale provision include: (1) discouraging the removal from the public domain of inventions that the public reasonably has come to believe are freely available; (2) favoring the prompt and widespread disclosure of inventions; (3) allowing the inventor a reasonable amount of time following sales activity to determine the potential economic value of a patent; and (4) prohibiting the inventor from commercially exploiting the invention for a period greater than the statutorily prescribed time of one year.[1]

Some early decisions construing the on-sale provision failed to pay appropriate attention to these underlying policies. For instance, *McCreery Engineering Co. v. Massachusetts Fan Co.*, 195 F. 498 (1st Cir. 1912), required that the invention be produced and "on-hand" in inventory before a sale of that invention constituted an on-sale bar. In so holding, the First Circuit in *McCreery* found the on-sale provision "intended by the statute is more or less analogous to a public use, and has regard to actual and completed transactions, and not to agreements which contemplate both a future production and a future transfer of title."[2]

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[1] *Continental Plastic Containers v. Owens Brockway Plastics, Inc.*, 46 U.S.P.Q.2d (BNA) 1277, 1279 (Fed. Cir. 1998) (citing *King Instrument Corp. v. Otari Corp.*, 767 F.2d 853, 860 (Fed. Cir. 1985)).

[2] *McCreery*, 195 F. at 502. *McCreery* was also followed by *Burke Elec. Co. v. Independent Pneumatic Tool Co.*, 234 F. 93 (2d Cir.), *cert. denied*, 241 U.S. 682 (1916), *B.F. Sturtevant Co. v. Massachusetts Hair & Felt Co.*, 124 F.2d 95 (1st Cir. 1941), *cert.* (continued...)

In *Timely Products Corp. v. Arron*, 523 F.2d 288 (2d Cir. 1975), the Second Circuit rejected the *McCreery* "on-hand" requirement, establishing the following criteria for determining whether a product has been placed on sale:

> (1) The complete invention claimed must have been embodied in or obvious in view of the thing offered for sale;
>
> (2) The invention must have been tested sufficiently to verify that it is operable and commercially marketable. This is simply another way of expressing the principle that an invention cannot be offered for sale until it is completed, which requires not merely its conception but its reduction to practice;
>
> (3) Finally, the sale must be primarily for profit rather than for experimental purposes.[3]

In 1984, the Federal Circuit recognized that rigidly requiring an actual reduction to practice of the claimed invention before invoking an on-sale bar — as *Timely Products* was said to have

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[2] (...continued)
denied, 315 U.S. 823 (1942).

[3] *Timely Prods.*, 523 F.2d at 302.

done[4] — often undercuts the very policies the on-sale provision was intended to promote:

> The *Timely Products* standard, while requiring less for "on sale" activity than the "on-hand" test, is, nevertheless, restrictive in that an offer to sell, without the existence of a physical embodiment of what is offered, does not start the running of the time period. It is not difficult to conceive of a situation where, because commercial benefits outside the allowed time have been great, the technical requisite of *Timely Products* for a physical embodiment, particularly for a simple product, would defeat the statutory policy and we, therefore, do not adopt the *Timely Products* test as the answer in all cases.[5]

For similar reasons, in *UMC Electronics v. United States*, 816 F.2d 647 (Fed. Cir. 1987), the Federal Circuit invalidated the patent-in-suit under the on-sale provision of § 102(b) even

[4]The Second Circuit in *Timely Products* did not require a complete reduction to practice of the invention as exactly claimed in the subsequently-issued patent, but considered a reduction to practice of an obvious modification of the claimed subject matter to support on-sale bar activity. *Timely Prods.*, 523 F.2d at 302 (finding the reduction to practice of a device not covered by the '965 patent to be a sufficient reduction to practice of the '965 patent because the embodiment constituted an obvious variation of the claimed subject matter).

[5]*Barmag Barmer Maschinenfabrik AG v. Murata Mach., Ltd.*, 731 F.2d 831, 837 (Fed. Cir. 1984). Although the *Barmag* court distinguished the *Timely Products* fully-complete standard, the court adopted the analysis of the trial court which used the *Timely Products* analysis in granting a summary judgment of invalidity.

though there had not been an actual reduction to practice of a completed invention.[6]

The Federal Circuit rejected the *McCreery* on-hand and *Timely Products* actual-reduction-to-practice requirements because they are often at cross purposes with the policies underlying the on-sale provision. The Federal Circuit, however, refused to establish an definite analysis for evaluation of the on-sale provision. Under *UMC Electronics* and its progeny, the Federal Circuit's on-sale analysis requires a consideration of "[a]ll of the circumstances surrounding the sale or offer to sell, including the stage of development of the invention and the nature of the invention, [which] must be considered and weighed against the policies underlying section 102(b)."[7]

[6] *See also General Elec. Co. v. United States*, 654 F.2d 55 (Ct. Cl. 1981) (suggesting no actual-reduction-to-practice requirement is supported by underlying policies of the on-sale provision).

[7]*UMC Elecs. Co. v. United States*, 816 F.2d 647, 656 (Fed. Cir. 1987); *see Micro Chem., Inc. v. Great Plains Chem. Co.*, 103 F.3d 1538, 1544 (Fed. Cir. 1997); *Pfaff v. Wells Elecs., Inc.*, 124 F.3d 1429, 1433 (Fed. Cir. 1997). At most, the Federal Circuit has provided only the standard for a *prima facie* case of an on-sale bar as: (1) a definite sale or offer for sale must exist more than one year before the filing date, and (2) the subject matter of the sale or offer to sell must fully anticipate the claimed invention or render the claimed invention obvious by addition to the prior art. *See UMC Elecs.*, 816 F.2d at 656. This *prima facie* standard, however, provides little more than what is gleaned from a direct reading of the statute.

The Federal Circuit justified the adoption of this generalized case-by-case approach because:

> While a wide variety of factors may influence the on-sale determination, no single one controls the application of section 102(b), for the ultimate conclusion depends on the totality of the circumstances.[8]

The Federal Circuit also justified its avoidance of a focused analysis because "rigid standards are especially unsuited to the on-sale provision where the policies underlying the bar, in effect, define it."[9]

As inventors, patent attorneys, commentators, and commercial interests confirm,[10] the present totality-of-the-circumstances test fails to provide lower courts and practitioners with a definite national standard for evaluation of

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[8] *Ferag AG v. Quipp Inc.*, 45 F.3d 1562, 1566 (Fed. Cir. 1995).

[9] *UMC Elecs.*, 816 F.2d at 653 (quoting *T.P. Lab. Inc. v. Professional Positioners, Inc.*, 724 F.2d 965, 973 (Fed. Cir. 1984) (public use), *cert. denied*, 469 U.S. 826 (1985)).

[10] Edward G. Poplawski & Paul D. Tripoli, II, *The Impact of Federal Circuit Precedent on the "On-Sale" and "Public Use" Bars to Patentability*, 44 Am. U. L. Rev. 2351, 2390-91 (1995) (acknowledging that the totality-of-the-circumstances standard is "inherently uncertain" making "predictability . . . an elusive goal"); *The Advisory Commission on Patent Law Reform: A Report to the Secretary of Commerce* (1992) (finding that the indefinite totality-of-the-circumstances standard was contributing to an erosion in the application of the underlying principles of the on-sale analysis); *see also* Janice M. Mueller, *Conception, Testing, Reduction to Practice: When Is It Really On Sale?*, 80 J. Pat. & Trademark Off. Soc'y 305, 317 ("Until the Supreme Court provides further guidance, however, patent practitioners must deal with an indeterminate *status quo*.").

the on-sale provision of 35 U.S.C. § 102(b). Because the totality-of-the-circumstances test provides little, or no, guidance to the lower courts and practitioners, a more definite and focused on-sale analysis is necessary to promote greater predictability in this area of the law. A comprehensive and understandable test is needed by practitioners who provide the public with legal advice regarding on-sale patent law issues because most real-world legal issues are resolved by lawyers' advice without resort to litigation.[11] Further, a comprehensive and definite on-sale analysis will enable lower courts to render decisions with increased opportunities for affirmance.

Although the Federal Circuit's unique character[12] warrants allowing that court to formulate detailed legal tests on patent-law issues, this Court has recognized that it is appropriate to lay down guiding principles where the Federal Circuit's efforts have not led to a sufficiently focused analysis. For instance, in *Warner-Jenkinson Co. v. Hilton Davis Chem. Co.*, 117 S. Ct. 1040, 1054 (1997), this Court found some aspects of the Federal Circuit's approach to the doctrine of equivalents were too indefinite and set forth a general framework to provide additional focus. After providing this framework, this Court left the detailed implementation of the test to the Federal Circuit's "sound judgment in that area of its special expertise."[13] In light of the Federal Circuit's failure to establish a workable, comprehensive on-sale analysis for the last ten

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[11] *Cf. Hickman v. Taylor*, 329 U.S. 495, 514-15 (1947) (Jackson, J., concurring) (observing that their advisory roles make "the lawyer and law office . . . indispensable parts of our administration of justice").

[12] *See generally* H.R. Rep. No. 97-312, at 20, 23 (1981); *see* Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25.

[13] *Warner-Jenkinson Co.*, 117 S.Ct. at 1054.

years, this Court should provide the same type of guidance in the form of a multiple-prong test.

II. Although It Is More Definite, the Actual-Reduction-to-Practice Standard Advocated by the Petitioner Is Poorly Suited to Support the Underlying On-Sale Policies

Like the earlier decisions analyzing the on-sale provision, the actual-reduction-to-practice standard advocated by the Petitioner fails to promote the underlying on-sale policies of 35 U.S.C. §102. The on-sale policies focus on the impact of the commercialization of the invention including discouraging the removal of inventions which the public has come to believe are freely available through sale, favoring the prompt disclosure of inventions, and prohibiting commercial exploitation of the invention beyond the statutorily prescribed patent term. The actual-reduction-to-practice standard, on the other hand, would focus on whether the invention has been completely fabricated. While a complete fabrication of the invention may demonstrate a capability to commercialize the invention through sale, the policies of the on-sale provision may be implicated long before the invention is completely fabricated down to the last nut and bolt.[14]

Commercialization and complete fabrication of the invention may occur simultaneously, but there are no guarantees that

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[14]For example, a patentee often commercializes an invention by selling the key components of the product, allowing the customer to add the final components to complete the system defined by the patent's claims. Although such a sale would be a contributory infringement within the patent's scope of protection, 35 U.S.C. § 271(c), it would not trigger the on-sale provision under the test advocated by Petitioner.

these activities must occur at the same time or in any particular order. In fact, the Northern District of Illinois has noted:

> Sometimes the ordinary course of commerce entails genuine sales of prototypes or even of concepts. In many industries -- military aviation being a prime example -- commercial sales occur while the items are still being developed. The vendor sells the germ of an idea and works out the bugs later, often in cooperation with the principal customer. Revenues flow in, and knowledge that the developer will seek a patent discourages rivals from investing in what may be expensive work along the same lines. Treating such sales as "real" sales for purposes of Section 102(b) is sensible, for that is the way the market works.[15]

Because the absence of a complete fabrication of the invention will not preclude a sale of the invention, an actual reduction to practice cannot be viewed as a necessary predicate for commercialization of the invention. A bright-line test should not be based upon a factor which is sometimes relevant to the analysis, but not always necessary to invoke the rule. Because there is no necessary predicate relationship between the complete fabrication of the invention and the commercialization of the invention, an actual reduction to practice is not the appropriate bright-line standard to analyze the on-sale provision.

The actual-reduction-to-practice standard, as advocated by the Petitioner, also ignores the sale or actual reduction to practice of obvious modifications to the claimed subject

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[15]*In re Mahurkar Patent Litig.*, 831 F. Supp. 1354, 1370 (N.D. Ill. 1993).

matter.[16] That is, an actual reduction to practice of the invention would require the fabrication of the invention as claimed exactly in the subsequently-issued patent.[17]

Further, under the Petitioner's actual-reduction-to-practice standard, a shrewd inventor could easily circumvent the on-sale bar by performing all but one insignificant step in the complete fabrication of the invention while simultaneously reaping the benefits of broad commercial activities. The inventor would be allowed to market a less-than-complete embodiment of the invention without consequence as long as the final steps in the reduction to practice were not completed. This type of conduct on behalf of the inventor would effectively lengthen the patent monopoly beyond its statutory limits.

As this hypothetical situation illustrates, a bright-line test based upon an actual-reduction-to-practice standard is inappropriate because such a standard can be used to circumvent the underlying policies of the on-sale provision. While the actual-reduction-to-practice standard may provide predictability in the form of a bright-line test, this predictability comes at the cost of abandoning full support for the underlying on-sale policies.

If there is unpredictability in the present on-sale analysis, the reason for this unpredictability is the indefinite totality-of-the-circumstances test as a whole — not the absence of an actual-reduction-to-practice standard. Predictability would be

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[16] *See UMC Elecs.*, 816 F.2d at 655-57.

[17] Of course, if a key part of the invention has yet to be developed and is entirely missing, the subject matter may not be complete enough to constitute an on-sale bar activity. *See Micro Chem., Inc. v. Great Plains Chem. Co.*, 103 F.3d 1538 (Fed. Cir. 1997).

enhanced by a focused analysis for the entire on-sale determination, rather than a bright-line actual-reduction-to-practice analysis which fails to honor the underlying policies of 35 U.S.C. §102(b).

III. A More Specific, Multiple-Prong Analysis Would Promote Greater Predictability and the Underlying On-Sale Policies

Under the proposed on-sale analysis, three areas of inquiry should be considered: (1) the commercial activities of the parties, (2) the intent and business acumen of the parties, and (3) the nature and development of the invention when sold or offered for sale. Based upon the underlying policies of the on-sale provision in 35 U.S.C. § 102(b) and precedent interpreting the on-sale provision, the proposed test provides flexible guidelines for the on-sale analysis. With this general framework, the Federal Circuit's refinement of the on-sale analysis would be greatly enhanced.

A. Do the Commercial Activities of the Patentee and the Offeree Establish an Identifiable Sale or Offer for Sale of the Invention More Than One Year Before the Filing Date?

The first prong in the proposed inquiry focuses upon any commercialization efforts through an identifiable sale or offer for sale of the invention. This commercialization inquiry should focus on whether an "invention" has been placed on-sale more than one year before the filing date. The "invention" in this context is the claimed invention or an obvious variation thereof.[18] Accordingly, something less than, or slightly

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[18] *UMC Elecs.*, 816 F.2d at 655-57.

different from, the invention as claimed in the subsequently-issued patent should be considered in any on-sale analysis.

The "inventor's attempted exploitation must be objectively manifested as a definite sale or offer to sell the invention."[19] Objective evidence of an actual sale or offer for sale could include the contract between the patentee and the offeree, if there is one, or offers, counter-offers, rejections and other correspondence, if not. Documentary evidence would include contracts, invoices, purchase orders, quotations, order confirmations or drafts of these documents. Evidence of detailed negotiations may also support the existence of a sale or offer for sale. The more specific the negotiations or documentary evidence, the more likely an identifiable sale or offer for sale can be proven in any given case.

This prong in the analysis (unlike the second and third proposed prongs) would be outcome determinative of the on-sale analysis because, if no sale or offer for sale of the invention can be identified, then the on-sale inquiry should be answered in the negative. Assuming the first prong of the analysis has been met, however, the other two prongs in the analysis should be considered on a continuum where no one fact or factor is dispositive.

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[19]*Ferag AG*, 45 F.3d at 1568.

B. Do The Patentee's and Offeree's Intent and Level of Business Acumen Evidence a Sale or Offer for Sale of the Invention?

The second prong in the proposed analysis focuses upon the intent and business sophistication of the parties. The intent of the parties, while not sufficient to support a finding of on-sale activity by itself, is a relevant consideration.[20]

As with all the other factors considered in this analysis, objective evidence of the parties' intent should be considered. Objective evidence of intent may be found in contracts, confidentiality agreements or research and development agreements. Because numerous reasons may support the activities of the parties, this objective evidence may demonstrate the inventor's desire to conduct experiments with the invention, withhold the invention from the public domain, or commercialize the invention through a sale to another.[21] The subjective intent of the parties should be considered where it does not contradict the expression of intent in clear and unambiguous documentary evidence such as a contract. Corroborating evidence may be helpful in preventing after-the-fact expressions of intent made solely to support a particular legal position in litigation.

The business sophistication of the parties should also be considered to determine whether the parties had the capability

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[20]*Ferag AG*, 45 F.3d at 1568.

[21]The experimental-use exception may preclude a finding of an on-sale bar activity even in the presence of commercial exploitation of the invention, but the commercial exploitation must be merely incidental to the primary purpose of experimentation to perfect the invention. *Barmag*, 731 F.2d at 839 (citing *In re Theis*, 610 F.2d 786, 793 (C.C.P.A. 1979)).

to contract for the sale of the invention or conduct experimental development according to a research and development contract. For example, a patentee who is a sole inventor may lack the resources and business skill available to the inventor employed by a large enterprise. In that situation, it may be appropriate to impute slightly less knowledge about the consequences of commercial activities so the sole inventor is not penalized for her lack of resources or business skill. By fully understanding the parties' intentions and business sophistication, the court can better understand the true nature of the parties' actions and whether they run afoul of the principles underlying the on-sale provision.

C. Is the Invention of a Nature and Stage of Development Such That It Could Be Sold in a Commercial Transaction?

Finally, the on-sale analysis should focus on whether the invention could be considered complete enough to be the subject matter of a commercial sales transaction. Focusing on the subject matter of the sale, the "invention" should be understood as the claimed invention or any obvious modification.[22] Under this prong, the nature of the invention should be considered, followed by a determination of the invention's actual stage of development when sold or offered for sale. Both factors should be considered on a continuum to determine if the subject matter of the commercial transaction would work as intended.

The nature of the invention should consider the background technology of the invention. While an invention in one technology area may be realized almost entirely from the drawing board, an invention in another technology area may

[22]*See* discussion *supra* Part III. A.

require extensive testing to determine whether it will work as intended. This inquiry recognizes that an invention in a relatively simple technology area can be realized, and sold, without extensive testing or an actual reduction to practice of the completed invention. Accordingly, the technological complexity of the invention should be evaluated.

Another part of the third prong in the proposed analysis is a determination of the actual stage of development of the invention. The invention should be more than a mere unformulated conception, and a qualitative assessment of the invention's stage of development should be conducted to determine whether the invention is complete enough to be the subject matter of a commercial transaction.

All technical documentation and evidence should be considered in this qualitative assessment, including the existence and content of inventor's notebooks, inventor sketches, technical memoranda, and schematic diagrams. Testing results may also be relevant in demonstrating an ability to sell the invention, but the existence or absence of testing should not be viewed as a controlling fact.[23] Common business and industry practice may also be relevant, as it was in this case.[24] An actual reduction to practice, while not necessary, may also constitute sufficient evidence of the inventor's ability

[23]*See Mahurkar v. C.R. Bard, Inc.*, 79 F.3d 1572, 1578 (Fed. Cir. 1996) ("[s]ome inventions are so simple and their purpose and efficacy so obvious that their complete construction is sufficient to demonstrate their workability."); *In re Asahi/America, Inc.*, 68 F.3d 442, 445 (Fed. Cir. 1995) (same).

[24]*Pfaff*, 124 F.3d at 1434-35 (considering business practices of going directly to production tooling from drawings and the industry practice of functionality and fatigue testing).

to commercialize the invention at that time.[25] Accordingly, all facts relevant to the inventor's ability to make the invention perform as intended, including the nature of the invention and the actual stage of development, should be considered in the third prong of the proposed analysis.

CONCLUSION

To promote predictability, a more definite on-sale analysis under 35 U.S.C. §102(b) is necessary than reflected in the decision below. The proposed analysis should promote the policies underlying the on-sale provision and provide guiding principles for the on-sale evaluation.

Respectfully submitted,

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[25] *UMC Elecs.*, 816 F.2d at 656 (finding that an actual reduction to practice, if present, can be an important analytical tool).